



FOREIGN DIRECT INVESTMENT IN INDIAN TELECOM SECTOR: A CRITICAL ANALYSIS

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ABSTRACT

FDI in the telecom sector has jumped nearly five times in the past 3 years – from \$1.3 billion in 2015-16 to \$6.2 billion in 2017-18. However, FDI has plunged to \$2.6 billion in 2018-19. The quantum and nature of FDI inflows depend on many factors and accordingly no specific reasons can be attributed for increase or decrease of inflows on year-to-year basis. There has been neither a regulatory uncertainty nor the lack of conducive environment to invest in the Telecom Sector which may be cited as a reason for the year-to-year decline in FDI. The telecom sector is facing financial stress due to stiff competition and reduction in tariffs. The country needs massive investment in developing newer technologies which could be accessible and affordable to the people and at the same time creates productive employment. The government is aiming the commercial rollout of fifth-generation or 5G services by the end of 2020. Gross inflows of FDI include 63% share of direct investment in equity and 37% share of portfolio investment. FDI increased due to adoption of more liberal foreign policy and series of measures are undertaken by GOI. It is observed that Mauritius and Singapur had 48% cumulative inflows of FDI. Government of India is intended to attract and promote foreign direct investment in order to supplement domestic capital, skills and technology, for accelerated economic growth.

KEYWORDS: FDI, Telecom Sector, Inflows, Foreign and Policy.

INTRODUCTION:

Telecommunications is one of the fastest growing industries in India that has undergone an innovative phase over the past few years and stands as the second largest telecommunications market in the world after China. It is due to liberalization policy that telecom sector could attract more FDI flows in private sector participation increased in total telephone connections of the nation. This led the sector to competitive stimulus, high telecom penetration and substantial reduction in tariffs. Though foreign telecom players have been present in India for almost more than a decade with tremendous growth, the sector is yet to witness the expected vibrancy and infusion of innovative technologies. FDI in the telecom sector was initially allowed at 74%. It was subject to the condition that companies bringing in FDI shall obtain necessary license from the Telecom Regulatory Authority of India (TRAI) for undertaking telecom activities. By recent decision government of India did hike FDI ceiling from 74% to 100% through the Foreign Investment Promotion Board (FIPB) (<https://taxguru.in/corporate-law/role-foreigninvestment-promotion-board-fipb.html>) and Government's consolidated FDI Policy. (<https://taxguru.in/wp-content/uploads/2019/08/Network.jpg>) The latest FDI policy circular has retained the FDI cap of 100% in telecom services (including Telecom Infrastructure Providers Category – I), of which up to 49 per cent investment can be done through the automatic route. The inflow of overseas investment beyond that requires government approval because of security reasons.

The development comes almost over a year after the government notified changes in the FDI rules in April 2020 that made prior approval of the government mandates for foreign investments from countries that share a border with India including Pakistan, China, Bangladesh and Nepal.

All telecom services including infrastructure providers will be covered under the new FDI rules. It may be noted that the Centre had earlier announced 100 per cent FDI in the telecom sector through the automatic route as part of its relief package for the telecom sector. As part of the telecom sector relief package, the government had introduced a total of nine structural reforms including computation of AGR dues, a four-year moratorium on patents and more. The sector is witnessing steady growth since the government has increased FDI in the telecom space to 100%. FDI in the telecom sector has jumped nearly five times in the past 3 years – from \$1.3 billion in 2015-16 to \$6.2 billion in 2017-18. However, FDI has plunged to \$2.6 billion in 2018-19. The quantum and nature of FDI inflows depend on many factors and accordingly no specific reasons can be attributed for increase or decrease of inflows on year-to-year basis. There has been neither a regulatory uncertainty nor the lack of conducive environment to invest in the Telecom Sector which may be cited as a reason for the year-to-year decline in FDI. The telecom sector is facing financial stress due to stiff competition and reduction in tariffs. The country needs massive investment in developing newer technologies which could be accessible and affordable to the people and at the same time creates productive employment. The government is aiming the commercial rollout of fifth-generation or 5G services by the end of 2020. The newer technology is also expected to bring in potential investment in the country with an array of multinational expressing interest in the enterprise applications and utility services. Inflows of FDI bridges the gap between the desired and the actual level of capital stock, especially when domestic investment is not sufficient to

push the actual capital stock up to the desired level. FDI helps in accelerating economic growth by means of infusion of capital, technology and modern management practices. Government of India is in favour of liberal and transparent foreign investment regime.

Telecommunication has been recognized as a powerful tool of development and poverty reduction through empowerment of masses. The reach of telecom services to all regions of the country has become an integral part of an innovative and technologically-driven society. India is currently the world's second largest telecommunications market with a subscriber base of 1.19 billion. The overall teledensity in the country is 91.22%. While the rural teledensity is currently 58.89%, the urban teledensity stands at 160.57% at the end of September, 2018. In the year 1991 the Government of India put forward liberalization policies. This affected the telecom sector also with a hike in competition rate-especially in the case of cellular services, which can capture the attention of various foreign investors. With the adoption of liberalization policy in telecom sector, it attracted more FDI in this sector.

Benefits of FDI in Indian Telecom Sector:

Private participation has ensured that the best of services are provided to consumers at reasonable rates. Due to the increase in the number of telecom companies, the competition has enhanced consumer experience with the freedom of choice between these networks. 2. The Indian telecom sector is growing at a steady rate as more and more of the population becomes connected. The investment opportunities are immense since the subscriber base is showing healthy growth. Hence, for foreign investors, Indian telecom sector is a very attractive and promising one. 3. Private investment has also improved the allied telecom infrastructure. This has ensured maximum connectivity to the general population with telecom connectivity reaching all corners of the country.

REVIEW OF LITERATURE:

Review of related literature makes the investigator fully aware with the previous work that has been done. It also provides an opportunity of gaining insight into the method, measures, subject and approaches employed by the other researchers.

Chennappa (2005) In his research discussed on FDI in Telecom sector in India. He opined that many countries allowed FDI based on the growth of tele-density and the per capita income that had gone up to considerable levels.

Yadav et al. (2015) In his paper on rapid changes in technology in Indian telecom sector stated that there is a significant impact of technology on the operational aspect of telecom business with increased competition and emergence of rural market.

Fathima et al. (2013) in her article on FDI in Telecom Sector presented an overview of FDI in Indian Telecom sector. The article examined the current status of FDI in the Indian telecommunication sector and the issues being faced by foreign companies. The paper concludes with a brief economic examination through relevant factors influencing the level of FDI.

OBJECTIVES OF THE STUDY:

The main objectives of this paper is based on following headings:

- To analyze trends in FDI in telecom sector in India.
- To examine the routes and forms of foreign investment in India.

RESEARCH METHODOLOGY:

The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

RESULTS AND DISCUSSION:**Contribution of Telecom Sector in Indian Economy:**

Following table shows that total GVA (Gross Value Added) telecom sector GVA increased from Rs. 81,06,946 crores and Rs. 91,346 in 2012 to Rs. 121,04,165 Rs. 1,14,842 in 2018 and respectively. Share of telecom sector GVA in total GVA showed a continuously increasing trend from 2012 to 2018.

Table1: Contribution of Telecom Sector in Indian Economy
(In Rs. Crore)

Year	Total GVA	Telecom Sector GVA	Share of Telecom Sector (%)
2012	81,06,946	91,346	1.13
2013	85,46,275	97,541	1.14
2014	90,63,649	1,10,180	1.22
2015	97,12,133	1,25,227	1.29
2016	104,91,870	1,40,331	1.35
2017	113,18,972	1,32,941	1.17
2018	121,04,165	1,14,842	0.95

Source: World Investment Report 2018 (UNCTAD)

Rationale for Liberalizing Indian FDI Policy:

Foreign Direct Investment (FDI) is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. It could be observed that there has been a steady build up in the actual FDI inflows in India. But meaprovisions relating to FDI in 1991 increased FDI \$ 129 million in 1990 to \$ 60974 million in 2018. The list of investing countries to India reached to 157 in 2018 as compared to 29 countries in 1991. Foreign direct investment (FDI) inflows to India declined by 26 percent to \$34,298 million in 2012-13 due to slow economic growth and high inflation. This decline in FDI inflows to India necessitated to liberalize further the FDI policy so as to attract more and more foreign investment to India.

The Indian economy has witnessed a number of liberal policy measures relating to FDI after initiation of the reform process in 1991. The major policy changes include fixing the limits of foreign investment in high priority industries, liberalizing and streamlining the procedures and mechanisms, lessening of bureaucratic controls, bringing in transparency in the decision making process, expanding the list of industries/activities eligible for automatic route of FDI, encouraging investments by non-resident Indians (NRIs) and overseas corporate bodies (OCBs) etc. Hence, contrary to the government's involvement in creation and augmentation of domestic asset base in the pre-reform era, the new policy regime has recorded a marked shift by introducing a number of deregulatory measures to bring in greater competition and efficiency. Accordingly, the policy measures have provided greater flexibility in investment decisions to facilitate larger presence of the MNCs in the domestic market.

Table 2: Revised Indian FDI Policy in Telecom Sector.

Sector	Previous Policy		2020 Revised Policy	
	Investment Cap	Approval Route	Investment Cap	Approval Route
Telecom Services	Up to 49%	Automatic	Up to 49%	Automatic
	Above 49% and up to 74%	Government	Above 49% and up to 100%	Government

In the revised policy of 2013 government of India increased the investment cap of FDI in telecom sector from 49% to 100% under the government route. Both direct and indirect foreign investment in the licensee company shall be counted for the purpose of FDI ceiling. In any case, the Indians shareholding will not be less than 26 percent. FDI in the licensee company/Indian promoters/investment companies including their holding companies shall require approval of the Foreign Investment Promotion Board (FIPB) if it has a bearing on the overall ceiling of 74 percent.

FDI in Telecom Sector in India:

The foreign direct investment in telecom sector in India is shown in the following

table. The Percentage of FDI in telecom sector to total FDI was highest (10.19%) in the year 2017-2018 and was lowest (0.89%) in the year 2012-13. FDI in telecom sector showed a mixed trend both in amount and as a percentage to total FDI. Total FDI in telecom sector during the year 1991-2000 was \$1,089.4 million, which increased to \$6,212 million in the year 2017-2018. Thus in the post liberalization period FDI in telecom sector showed more than fivefold growth in the year 2017-18 as compared to the collective amount of the years 1991-2000.

Indian telecom sector received heavy inflow of foreign direct investment (FDI) in the first quarter of the current financial year. At Rs 29,352 crore, the FDI in telecommunications in just one quarter of FY20, surpassed the total FDI inflow into the sector in the entire previous financial year FY19, according to the data from Ministry of Commerce and Trade. FDI inflow in India has shot up 33 per cent in the first quarter of the current financial year. Foreign direct investments of Rs 1.13 lakh crore has been received in Q1 FY20, which was Rs 85,180 crore in the same quarter last year. In the month of June alone, a cumulative FDI of Rs 50,567 crore was received in India. In dollar terms, the growth in FDI in the first quarter remained 28 per cent. On an average, service sector including financial, banking, insurance, outsourcing, R&D, etc, receives the maximum, that is, 18 per cent of the total FDI received in India. In the first quarter, the service sector received Rs 19,462 crore, second highest after telecommunications. In 2018-19, India received a lifetime high FDI of \$62 billion, with maximum share of \$9.2 billion in the services sector. Foreign Direct Investment (FDI) in the Indian telecom sector dropped by around 43 per cent to USD 2.6 billion in fiscal year 2018-19, "The FDI equity inflow in the Financial Year 2017-18 was USD 6,211.84 million, whereas the FDI equity inflow in the Financial Year 2018-19 was USD 2,667.91 million. The quantum and nature of FDI inflows depend on many factors and accordingly no specific reasons can be attributed for increase or decrease of inflows on year-to-year basis. There has been neither a regulatory uncertainty nor the lack of conducive environment to invest in the Telecom Sector which may be cited as a reason for the year-to-year decline in FDI. Stressed financial conditions, if any, cannot be held responsible for year-to-year decline." According to an inter-ministerial group report submitted on August 31, 2017, the total debt of the telecom industry was Rs 7.88 lakh crore. The telecom sector is facing financial stress due to stiff competition and reduction in tariffs. The gross revenue of two private operators Airtel and Vodafone Idea has also reduced in financial years 2017-18 and 2018-19.

Table 3: Foreign Direct Investment in Telecom Sector.
(In US \$ Million)

Year	Total FDI	FDI in Telecom Sector	Percentage of FDI in Telecom Sector to Total FDI
1991-2000	15,483	1,089.4	7.04%
2000-2010	1,71,815	8,915.9	5.19%
2010-2011	34,847	1,664.5	4.78%
2011-2012	46,556	1,997.2	4.29%
2012-2013	34,298	303.87	0.89%
2013-2014	36,046	1,306.95	3.63%
2014-2015	45,148	2,894.94	6.41%
2015-2016	55,559	1,324.40	2.38%
2016-2017	60,220	5,563.69	9.24%
2017-2018	60,974	6,212	10.19%
2018-19 (Upto Sept.2018)	31,177	2,178	6.99%

Source: RBI's Bulletin January, 2019

Country-wise FDI Equity Inflows in Telecom Sector:

Following table shows that Mauritius (\$20,752.72 million) is the largest contributor of FDI in telecom sector in India followed by Singapore (\$4,418.94 million), Japan (\$2,158.23 million) and Russia (\$846.62 million). The percentage of FDI by Mauritius to the total amount of FDI in telecom sector during the period April 2000 to September 2017 was 69.11%, whereas Germany contributed only 0.34% of total FDI in telecom sector.

Table 4: Country-wise FDI Equity Inflows in Telecom Sector (April 2000 to September 2017) (In US \$ Million)

() Name of the Country	Amount of Foreign Direct Investment Inflows	Percentage with Total
Mauritius	20,752.72	69.11
Singapore	4,418.94	14.72
Japan	2,158.23	7.19
Russia	846.62	2.82
U.S.A	363.47	1.21
Cyprus	253.84	0.85
United Kingdom	251.53	0.84

UAE	157.07	0.52
Netherlands	113.16	0.38
Germany	100.96	0.34
Grand Total	30029.84	

Source: www.dot.gov.in

CONCLUSION:

Gross inflows of FDI include 63% share of direct investment in equity and 37% share of portfolio investment. FDI increased due to adoption of more liberal foreign policy and series of measures are undertaken by GOI. It is observed that Mauritius and Singapore had 48% cumulative inflows of FDI. Government of India is intended to attract and promote foreign direct investment in order to supplement domestic capital, skills and technology, for accelerated economic growth. In the post liberalization period, FDI in telecom sector showed more than fivefold growth in the year 2017-18 as compared to the collective amount of the years 1991-2000. After amending FDI policy in telecom sector in 2013, FDI in telecom sector showed increasing trend except the year 2015-16. Mauritius with \$20,752.72 million is the largest contributor of FDI in telecom sector in India. The above analysis shows that this liberalization is not sufficient. Other factors affecting FDI in telecom sector also need to be targeted. FDI in India will bring various benefits like advancement of knowledge, skill, technology, exports, employment and management. But MNCs may create forex drain from India. Indian companies will face stiff competition from foreign companies. Thus, while allowing different sectors like multi-brand retailing, GOI should have to take a cautious steps.

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